

claims that have been incurred but not reported. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process does not result in an exact amount. Claim liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims and other economic and social factors.

The Management of the State estimates that the amount of actual or potential claims against the State as of June 30, 2003, for workers' compensation, automobile accident and health-care claim liabilities is \$113.5 million. The claim liabilities relating to health-care totaling \$49.2 million have been recorded as current liabilities. The liability for workers' compensation and automobile accident liabilities of \$64.3 million have been recorded as long-term obligations. Other claim liabilities relating to police professional malpractice and property and casualty were not recorded at June 30, 2003 as the total of these liabilities were not material to the financial statements. Changes in the balances of claim liabilities during fiscal years 2002 and 2003 were as follows:

(Expressed in Thousands)

Fiscal Year	Beginning Balance July 1	Current Year Claims and Changes in Estimates	Actual Claim Payments	Ending Balance June 30
2002	\$ 95,194	\$ 384,570	\$ (382,350)	\$ 97,414
2003	\$ 97,414	\$ 429,108	\$ (413,064)	\$ 113,458

NOTE 14. PENSIONS

PRIMARY GOVERNMENT

State of Delaware Pension Plans

The State Board of Pension Trustees administers the following defined benefit plans of the Delaware Public Employees' Retirement System (DPERS):

- *State Employees' Pension Plan;
- *Special Pension Plan;
- *New State Police Pension Plan;
- *Judiciary Pension Plans (Closed and Revised);
- *County and Municipal Police/Firemen's Pension Plans
(FICA and Non-FICA);
- *County and Municipal Other Employees' Pension Plan;

- *Volunteer Firemen's Pension Plan;
- *Diamond State Port Corporation Pension Plan; and
- *Closed State Police Pension Plan.

With the exception of the Diamond State Port Corporation Pension Plan, the State of Delaware General Assembly is responsible for setting benefits and contributions and amending plan provisions. The Board of Directors for the Diamond State Port Corporation is responsible for setting benefits and contributions and amending plan provisions.

The individual plans comprising the DPERS are considered part of the State's financial reporting entity and are included in the accompanying financial statements as pension trust funds in the fiduciary funds. All of the investment assets of the Plans, with the exception of the Closed Police Pension Plan, are pooled and invested in the common DPERS Master Trust Fund (Master Trust). Each of the Plans has equity in the Master Trust based on funds contributed and earnings allocated. Individual investments in the Master Trust are not specifically identified to the various Plans.

Additionally, the following non-DPERS funds, described below, have been established under the custody of the State Board of Pension Trustees.

- *County and Municipal Police/Firemen's COLA Fund;
- *Post-Retirement Increase Fund; and
- *Delaware Local Government Retirement Investment Pool.

Non-DPERS Fund Descriptions and Contributions

County and Municipal Police and Firemen's COLA Fund

During 1990, the State of Delaware passed legislation, which established a mechanism for funding post-retirement increases granted by employers who participate in the County and Municipal Police and Firemen's Pension Plans. This mechanism allows the State to appropriate funds to a separate County and Municipal Police and Firemen's COLA Fund managed by the Board. The funds are generated by a 0.25% tax on the value of insurance premiums written within the State. The State and local governments transfer the proceeds of the tax on a per officer basis. The portion of the tax payable relating to the State Police is re-directed into the COLA Fund. When a participating employer grants a post-retirement increase, funds are transferred from the COLA Fund to the employer. The participating employer must provide funds to match the State's contribution.

Post-Retirement Increase Fund (PRI)

During 1993, the State of Delaware passed legislation which established a mechanism for funding ad hoc post-retirement increases granted by the General Assembly to employees retired under the State Employees' Plan, the New State Police Plan and the Judiciary Plans (Closed and Revised) beginning with Fiscal 1994. The mechanism allows the State to appropriate actuarially determined employer contributions to a separate Post-Retirement Increase Fund managed by the Board. When the Legislature grants an ad hoc post-retirement adjustment, funds are transferred from this Post-Retirement Increase Fund on a monthly basis based on a 5-year actuarial funding schedule to the appropriate pension plan from which the additional benefits are disbursed.

Investment Trust Fund

In June 1996, the State of Delaware passed legislation, which established the Delaware Local Government Retirement Investment Pool (DELRIP) in the custody of the Board of Pension Trustees to allow local governments the option to pool their pension assets with the Delaware Public Employees' Retirement System. The DELRIP is an external investment pool that allows local governments to maximize their rate of return and reduce administrative expenses related to the investment of funds. There were three participating entities in the DELRIP as of June 30, 2003, which comprises the pool in its entirety.

The DELRIP is subject to the oversight of the System's Investment Committee and not subject to the regulatory oversight of the SEC. The System has not provided or obtained any legal binding guarantees during the year to support the value of shares. The fair value of the portion in the pool is the same as the value of the Master Trust shares.

Post-Retirement Health Insurance Premium Fund

In June 2000, the State of Delaware passed legislation which established a mechanism for funding the State's retiree health care costs for covered employees in the State Employees' Pension Plan. The mechanism allows the State to appropriate employer contributions to a separate fund managed by the Board. These funds will be used to pay the State's cost for health care premiums. Funding levels are set annually by the Delaware State Legislature as a part of the budget process. Funding began in July 2001 in the amount of 0.65% of payroll. Funding for FY2003 was 0.37% of payroll. Funding during FY2004 has been suspended.

The DPERS issues a publicly available financial report that includes financial statements and required supplementary information for each of the individual plans and funds identified above. The financial report may be obtained by writing to the